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APPROVAL OF UNDP ASSISTANCE TO A PROJECT OF EGYPT

IPF:(1992-96) $39 432 000
(EGY/91/007) - Implementation Monitoring Mechanism - Economic Reform and Structural Adjustment Programme

Date of approval by the AC:[1]	12 February 1992
Expected duration:	Three years
Proposed executing agency:	Government
Proposed UNDP contribution:	$780 000 Source of funds:
Total UNDP budget:	$780 000

Project background

The Government of Egypt's Economic Reform and Structural Adjustment Programme (ERSAP), initiated in March 1990, is a systematic and comprehensive effort to accelerate, strengthen and broaden the pace of economic reform. The goal is a full-employment, market-based economy in which a growing private sector and a restructured and scaled-down public sector compete on an equal footing in a stable macroeconomic environment. It focuses on stabilization to restore macroeconomic balance, structural adjustment to improve efficiency in resource allocation, while switching towards a private sector and export-led growth strategy and modifying social policies to minimize the effects of economic reforms on the poor. The ERSAP is very comprehensive and contains the following components: (1) macroeconomic reform aiming at curtailing inflation, current account and budget deficits and restoring credit worthiness; (2) public enterprise reform aiming at privatizing and restructuring public enterprises and at reforming financial relationships between public enterprises, commercial and investment banks and the Government; (3) domestic price liberalization aiming at decontrolling price setting in the agricultural and manufacturing sectors, both public and private; within three years most prices are to be determined by market forces; (4) foreign trade liberalization aiming at phasing out most non-tariff barriers to imports and exports, reducing high customs tariffs and dismantling restrictions on exports; (5) private sector reform aiming at encouraging and facilitating private enterprise development through abolishing investment and production controls, dismantling government monopolies, and phasing out private sector discrimination in the purchase of imports from public sector companies; and (6) addressing social consequences of adjustment through establishment of a Social Fund for Development aiming at minimizing adverse impact of further reforms on the poor as well as facilitating the reintegration of Egyptian workers returned from the Gulf.

The ERSAP is supported by several sources. An IMF Standby Arrangement is providing (US)$400 million while the World Bank is approving a (US)$300 million Structural Adjustment loan (SAL) in two tranches. The African Development Bank has made a loan of about (US)$140

[1] This Fact Sheet reflects the status of the project/revision at the time it was approved by the Action Committee; modifications to the project/revision may have occurred subsequently.

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million, also in two tranches while the Paris Club creditors have granted a generous debt relief programme. By the beginning of February 1992, progress was beginning to be seen on a number of fronts. Foreign exchange has been restructured into two markets with a difference of only five per cent between the two; and imposition of more realistic interest rates has made the Egyptian pound more stable and freely convertible for the first time., The budget deficit has been substantially reduced. Much of the budget shortfall is financed by high-yield treasury bonds rather than loans thereby bringing greater fiscal stability. However, it has also become even clearer to the Government that in order to implement the reform programme in a sustainable manner there must be a build-up of both monitoring and implementation capacity.

Such national capacity is required for two reasons: (1) to fulfil the reporting requirements to the World Bank, the IMF and to some extent the international donor community - i.e., that certain macroeconomic targets are being met; and (2) the Government is concerned that the implementation of the programme is monitored from the standpoint of its impact on the growth and structural change of the economy, on the development of the private sector, on the level of employment and real ages and on the standard of living of the population at large.Complementary policy interventions may need to be formulated in order to ensure that the economic reforms are translated into real structural changes, a revival of economic growth and sustainable improvements in the standard of living.

Description of project

The development objectives of the project are to: (a) provide the data and policy analysis necessary to assess outcomes and formulate appropriate policy adjustments; and (b) establish an agency which can undertake the timely monitoring of the ERSAP. Project activities will include the building of a capacity to coordinate a broad range of activities and socioeconomic data, cutting across a number of diverse sectors, ministries and agencies.

Inputs

UNDP will provide a chief of economic team (40.0 work-months), three senior economists (43.2 work-months) seven economists/statisticians, three systems analysts (25.2 work-months); four research assistants (33.6 work-months); in-service training; and equipment (84.0 work-months) including one auto, two motor cycles and office equipment.

Financial data

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Personnel	500 000
Subcontract	—
Training	220 000
Equipment	50 000
Miscellaneous	10 000
Total	780 000

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